

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Benton Harbor - St. Joseph Joint Wastewater Treatment Plant</u>	County Berrien
Audit Date June 30, 2005	Opinion Date August 10, 2005	Date Accountant Report Submitted To State: September 13, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature <i>Plante & Moran, PLLC</i>			

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

**Financial Report
with Supplemental Information
June 30, 2005**

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

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Independent Auditor's Report

To the Joint Board of Commissioners
Benton Harbor - St. Joseph
Joint Wastewater Treatment Plant

We have audited the accompanying basic financial statements of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant as of June 30, 2005 and 2004 and for the years then ended. These financial statements are the responsibility of the Joint Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant at June 30, 2005 and 2004 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Benton Harbor - St. Joseph Joint Wastewater Treatment Plant. We did not examine this data and, accordingly, do not express an opinion thereon.

Our audits were conducted for the purpose of forming an opinion on the Joint Plant's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 10, 2005

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Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Management's Discussion and Analysis

About the Facility

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant (the "Joint Plant") serves the Benton Harbor - St. Joseph regional area with wastewater treatment services. The facility is owned by the cities of Benton Harbor and St. Joseph, as tenants in common. Control, management, and operation of the Joint Plant are vested in the Joint Board of Commissioners (the "Joint Board"). The Joint Board consists of eight members, with three representatives each from the cities of Benton Harbor and St. Joseph and one member each from Benton Charter Township and the Lake Michigan Shoreline Water and Sewage Treatment Authority. Act 129 of Michigan Public Acts of 1943 is the enabling state legislation authorizing the cities of Benton Harbor and St. Joseph to establish the Joint Board. The Joint Plant is a corporate body under Act 129. Act 129 charges the Joint Board with establishing treatment service rates adequate to pay bonded indebtedness and operating costs.

The Joint Plant provides wastewater treatment services to the owner cities of Benton Harbor and St. Joseph, the townships of Benton, St. Joseph, Lincoln, and Royalton, and the villages of Shoreham and Stevensville. The connected service population is approximately 57,140. Treatment capacity of the facility is 15.3 million gallons per day. For the fiscal year ended June 30, 2005, the Joint Plant treated an average flow of 9.21 million gallons per day.

Mission Statement and Sources of Revenue

The Joint Plant's mission is to protect the local water resources through the development and use of sound operating and fiscal practices in the treatment of municipal wastewater. To meet its mission, the Joint Plant must generate sufficient funds through its bulk (wholesale) treatment rate to meet current operating and maintenance costs and long-term capital requirements. The bulk rate charged tributary governmental units for wastewater treatment service is reviewed annually and adjusted periodically by the Joint Board to meet projected needs. For the fiscal year ended June 30, 2005, the bulk treatment rate was \$1,058 per million gallons. The bulk treatment rate provides in excess of 95 percent of the Joint Plant's total operating revenue. Revenue contributed by the tributary governmental units is a factor of discharged flow and the bulk treatment rate. Other sources of revenue, in order of magnitude, include industrial surcharges (high-strength wastewaters), septic tank waste treatment, and laboratory fees. Revenue from industrial surcharges decreased during this fiscal year due principally to decreased waste loadings from Old Europe Cheese and Dean Specialty Foods Group. The decreased loading from Dean Specialty Foods Group was a result of the firm ceasing operations at its Benton Harbor facility in November 2004.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table represents condensed information about the Joint Plant's financial position for the past three fiscal years. Total net assets increased by approximately \$1,415,000 between fiscal years 2003-2005. This increase in net assets is also reflected by an increase in current assets. Unrestricted net assets include an amount designated by the board for future construction projects. Investment maturities have been structured to meet these future needs.

	Fiscal Year Ended June 30		
	2005	2004	2003
Assets			
Current assets	\$ 8,984,539	\$ 8,016,083	\$ 7,456,590
Capital assets	<u>9,496,358</u>	<u>9,522,113</u>	<u>9,452,621</u>
Total assets	18,480,897	17,538,196	16,909,211
Current Liabilities	<u>505,199</u>	<u>367,488</u>	<u>348,698</u>
Net Assets			
Invested in capital assets	9,496,358	9,522,113	9,452,621
Unrestricted	<u>8,479,340</u>	<u>7,648,595</u>	<u>7,107,892</u>
Total net assets	<u>\$ 17,975,698</u>	<u>\$ 17,170,708</u>	<u>\$ 16,560,513</u>

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Management's Discussion and Analysis (Continued)

Operating Income and Expenses

The Joint Plant's financial position at June 30, 2005 is sound. Operating income from the bulk treatment charges combined with nonoperating interest income and revenue from industrial "high-strength" surcharges, laboratory fees, and other miscellaneous income was adequate to meet operating expenses. The largest capital improvement project to date, the Digester Renovation and Chlorination Project, was begun in May 2005. The project, with a construction contract amount of \$8,233,032, is expected to take over two years to complete. Project funding will come from reserves and a short-term (five-year) capital equipment lease. Operating income and expense, nonoperating income, and capital improvement expenditures for the past three fiscal years are presented below.

	Fiscal Year Ended June 30		
	2005	2004	2003
Operating income (treatment charges)	\$ 3,496,057	\$ 3,318,546	\$ 2,970,084
Lab, septic, and miscellaneous billings	67,861	69,573	120,204
Total revenue	3,563,918	3,388,119	3,090,288
Operating and maintenance costs	1,843,213	1,921,538	1,838,408
Depreciation	758,646	658,019	576,573
Administrative and other	293,570	281,603	265,067
Total operating expenses	2,895,429	2,861,160	2,680,048
Nonoperating income (interest income)	171,942	89,503	202,614
Nonoperating expense (loss on disposal)	(35,441)	(6,267)	-
Total nonoperating income	136,501	83,236	202,614
Net income	<u>\$ 804,990</u>	<u>\$ 610,195</u>	<u>\$ 612,854</u>
Expenditures for capital improvements	<u>\$ 768,332</u>	<u>\$ 733,778</u>	<u>\$ 2,140,242</u>

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Management's Discussion and Analysis (Continued)

As the data indicates, operating income for fiscal 2005 increased by approximately \$176,000 over the previous fiscal year as a result of higher flows from the tributary governmental units and an increase in the bulk treatment rate effective January 1, 2004. Looking forward, operating income is anticipated to rise moderately over the next five years with forecasted increases in the bulk treatment rate. Operating expenses increased slightly from the previous fiscal year by approximately \$34,000 due to additional depreciation on projects completed during the year offset by reduced staffing and delayed operating supplies purchasing. Operating expenses are expected to trend upward. The Joint Plant is experiencing increasing difficulty in managing operating costs with rising natural gas and electric rates and increased employee benefit cost - primarily in the area of health insurance premiums. Management recognizes that control over year-to-year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing. A five-year financial plan is employed to forecast revenue, operating and maintenance, and capital improvements costs.

Nonoperating Interest Income

In prior years, nonoperating income has significantly contributed to the Joint Plant's overall revenue base. The rise in interest income this past year is a reflection of more favorable interest rates available in the Joint Plant's investment instruments. Interest rates moved up and are expected to remain stable to higher throughout fiscal year 2006. However, the funding requirements for the Digester Renovation and Chlorination Project will significantly deplete the Joint Plant's investment portfolio over the next several years, which in turn will negatively impact future nonoperating interest income.

Capital Improvements and Funding Requirements

Funding needs for capital improvements is a significant element in the Joint Plant's financial plan. The facility's five-year capital plan calls for the expenditure of \$12,800,000 in facility improvements. Of this amount, approximately \$7,839,000 is currently available to meet capital requirements. The balance of the required funds will be generated through operating revenues and short-term capital equipment leases. For the fiscal year just ended, capital expenditures were primarily related to completion of the design work and bid solicitation process associated with the Digester Renovation and Chlorination Project.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Management's Discussion and Analysis (Continued)

Looking beyond the next five years, capital improvements totaling an additional \$10,945,000 have been identified. These proposed projects are listed in the Joint Plant's 10-year Capital Improvement Plan as found in the fiscal 2005 budget. These projected capital needs are a result of the recently completed Strategic Capital Improvement Plan (SCIP) prepared for the Joint Plant by Consoer Townsend Envirodyne Engineers. Elements of the SCIP include assessment of the physical condition of the existing plant, a review of projected future service requirements (population, business, and residential growth within the Joint Plant's service area), existing treatment process and hydraulic capacity limitations in the facility, and identification of capital needs over the next 12 years. The SCIP study was completed in Fiscal 2004 and provides a roadmap for future capital projects at the Joint Plant.

Fiscal Year 2004 Budget Variances

The 2005 fiscal year ended with actual operating income higher than budgeted income by \$198,000. Operating expenses before depreciation, on the other hand, closed the year under budget by approximately \$342,000. Savings in budgeted labor expense (\$170,965), chemicals (\$32,224), sludge handling (\$47,834), maintenance supplies and contracts (\$34,239), and public utilities (\$40,356) accounted for a majority of this amount. Savings of this magnitude are not anticipated for future budget years. A contract extension with the Joint Plant's land application vendor will stabilize these costs through December 2006. Supply contract bids during fiscal year 2004 for polymer (anionic and cationic) and chlorine resulted in higher unit costs for these materials. The subject contracts extend through December 2006 (polymer) and April 2006 (chlorine). While natural gas and electric power costs came in below budget, these commodities increased \$25,000 from the prior year. Natural gas continues to set near record highs month to month. Management is considering procuring longer-term (two-year) natural gas supply contracts as a means to reduce price and budget volatility going forward.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Management's Discussion and Analysis (Continued)

Capital Assets

An appraisal of the Joint Plant's buildings and equipment is conducted annually for property insurance purposes. The appraisal conducted on September 21, 2004 established the insurable replacement value of the plant at \$34,643,171. To protect this investment in physical assets, the Joint Plant has developed and maintains a 10-year capital improvement plan. The capital plan, which is updated annually, is directed toward maintaining, improving, and expanding the facility. Identified capital improvements total \$12,800,000 over the next five years and \$23,745,000 over 10 years. Funding for the proposed improvements is anticipated to come from operating revenue. Long-term bonding is not expected to be employed to fund these improvements. Lease/purchase agreements will, however, be utilized to meet short-term, three- to six-year cash flow requirements for these projects. The general condition of the physical assets (buildings and equipment) is considered good, but maintaining the capital improvement schedule as proposed will be critical in protecting the long-term value and reliability of these assets. As noted previously, the Joint Plant has engaged Consoer Townsend Envirodyne Engineers to provide an updated Strategic Capital Improvement Plan for the facility. This plan identifies and updates capital needs and their associated costs over the next 12-year period. The study was completed in fiscal 2004. The Joint Plant is currently debt free.

Contacting the Joint Plant's Management

The purpose of this management's discussion and analysis is to provide an overview of the current and prospective financial condition of the Joint Plant's operations and physical assets. Questions concerning this report may be directed to Timothy J. Lynch, Plant Manager.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Statement of Net Assets

	June 30	
	2005	2004
Assets		
Cash and cash equivalents (Note 3)	\$ 1,859,552	\$ 2,749,906
Investments (Note 3)	6,549,838	4,471,384
Accounts receivable	453,652	717,567
Accrued interest receivable	91,254	47,692
Prepaid expenses	30,243	29,534
Capital assets (Note 4)	9,496,358	9,522,113
Total assets	18,480,897	17,538,196
Liabilities		
Accounts payable	355,147	205,338
Accrued wages payable and other liabilities	150,052	162,150
Total liabilities	505,199	367,488
Net Assets		
Invested in capital assets	9,496,358	9,522,113
Unrestricted (Note 2)	8,479,340	7,648,595
Total net assets	<u>\$ 17,975,698</u>	<u>\$ 17,170,708</u>

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30	
	2005	2004
Operating Revenue		
Sewage treatment charges	\$ 3,496,057	\$ 3,318,546
Laboratory fees	22,631	29,885
Miscellaneous	45,230	39,688
Total operating revenue	3,563,918	3,388,119
Operating Expenses		
Operation and maintenance	1,843,213	1,921,538
Depreciation	758,646	658,019
Administrative and other	293,570	281,603
Total operating expenses	2,895,429	2,861,160
Operating Income	668,489	526,959
Nonoperating Revenue (Expense)		
Interest earnings on investments	171,942	89,503
Loss on disposal of capital asset	(35,441)	(6,267)
Total nonoperating income	136,501	83,236
Net Income	804,990	610,195
Net Assets - Beginning of year	17,170,708	16,560,513
Net Assets - End of year	<u>\$ 17,975,698</u>	<u>\$ 17,170,708</u>

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Statement of Cash Flows

	Year Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,827,832	\$ 3,166,342
Cash payments to suppliers for goods and services	(1,219,447)	(1,142,920)
Cash payments to employees for services	(1,040,333)	(1,048,745)
Net cash provided by operating activities	1,568,052	974,677
Cash Flows from Capital and Related Financing Activities - Payments for acquisition or construction of capital assets	(508,332)	(733,778)
Cash Flows from Investing Activities		
Proceeds from sale of investments	2,007,441	2,907,092
Payments for purchase of investments	(4,085,895)	(3,301,535)
Interest received on investments	128,380	200,505
Net cash used in investing activities	(1,950,074)	(193,938)
Net Increase (Decrease) in Cash and Cash Equivalents	(890,354)	46,961
Cash and Cash Equivalents - Beginning of year	2,749,906	2,702,945
Cash and Cash Equivalents - End of year	<u>\$ 1,859,552</u>	<u>\$ 2,749,906</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities		
Operating income	\$ 668,489	\$ 526,959
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Depreciation	758,646	658,019
(Increase) decrease in assets:		
Accounts receivable	263,915	(221,777)
Prepaid expenses	(709)	(7,314)
Increase (decrease) in liabilities:		
Accounts payable	(110,191)	6,093
Accrued wages and other liabilities	(12,098)	12,697
Net cash provided by operating activities	<u>\$ 1,568,052</u>	<u>\$ 974,677</u>

Noncash Operating, Capital, and Investing Activities - During the year, there were no noncash activities, except for \$260,000 of capital assets financed through vendor accounts payable at year end.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Nature of Entity

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant (the "Joint Plant") is a joint venture of the cities of Benton Harbor and St. Joseph, Michigan and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to acquire and operate a sewage disposal system. The Joint Plant currently operates a sewage transportation and processing system to these communities as well as for surrounding municipalities.

The Internal Revenue Service has ruled that the Joint Plant is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Benton Harbor - St. Joseph Joint Wastewater Treatment Plant conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting - The accrual basis of accounting is used to account for the operations of the Joint Plant. The Joint Plant follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Joint Plant has elected not to follow private sector standards issued after November 30, 1989.

Operating Revenue - Operating revenue represents billings to area municipalities based on flow rates metered by the Joint Plant as well as charges to local businesses for extra strength industrial processing.

Capital Assets - Property, plant, and equipment are stated at cost. Depreciation has been charged as an expense against operations of the Joint Plant on a straight-line basis.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Notes to Financial Statements June 30, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash Equivalents - The Joint Board considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Unrestricted Net Assets - The Joint Plant, through board action, has designated the use of unrestricted net assets as follows:

	2005	2004
Designated for future repairs and replacements	\$ 5,500,000	\$ 5,500,000
Undesignated and unallocated	<u>2,979,340</u>	<u>2,148,595</u>
Total unrestricted net assets	<u>\$ 8,479,340</u>	<u>\$ 7,648,595</u>

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Reclassification - Certain items from the 2004 financial statements have been reclassified to conform with the presentation used in 2005.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Notes to Financial Statements June 30, 2005 and 2004

Note 3 - Deposits and Investments (Continued)

The Joint Plant has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the above except deposits in credit unions and repurchase agreements. The Joint Plant's deposits and investment policies are in accordance with statutory authority.

The Joint Plant's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Joint Plant's deposits may not be returned to it. The Joint Plant does not have a deposit policy for custodial credit risk. At year end, the Joint Plant had approximately \$7,261,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Joint Plant believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Joint Plant evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Joint Plant will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Plant does not have a policy for custodial credit risk. At year end, approximately \$448,000 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Joint Plant's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Joint Plant's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the maturities of investments are as follows:

Investment	Fair Value	Investment Maturity	
		Less than 1 Year	1-5 Years
Federal National Mortgage Association (FNMA)	\$447,953	\$447,953	\$ -

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Notes to Financial Statements June 30, 2005 and 2004

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Joint Plant has no investment policy that would further limit its investment choices. As of year end, the Joint Plant held no debt securities other than U.S. government or related agencies.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	2004	Additions	Disposals	2005	Depreciable Life - Years
Land	\$ 24,161	\$ -	\$ -	\$ 24,161	-
Land improvements	104,032	-	-	104,032	10-25
Buildings	12,825,652	10,082	-	12,835,734	25-50
Equipment	6,708,898	176,916	(67,774)	6,818,040	3-25
Construction in progress	726,132	692,582	(111,248)	1,307,466	-
Total	20,388,875	879,580	(179,022)	21,089,433	
Less accumulated depreciation	(10,866,762)	(758,646)	32,333	(11,593,075)	
Net carrying amount	<u>\$ 9,522,113</u>	<u>\$ 120,934</u>	<u>\$ (146,689)</u>	<u>\$ 9,496,358</u>	

The Joint Plant had commitments as of June 30, 2005 as follows:

	Spent to Date	Remaining Commitment
WWTP 2004 improvements	\$ -	\$ 8,233,032
Miscellaneous	14,169	43,132

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Notes to Financial Statements June 30, 2005 and 2004

Note 5 - Defined Benefit Pension Plan

Plan Description - The Benton Harbor - St. Joseph Joint Wastewater Treatment Plant contributes to the City of St. Joseph Employees Retirement System, a multi-employer defined benefit pension plan administered by the City of St. Joseph. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that is included in the basic financial statements of the City of St. Joseph. That report may be obtained by writing to the City of St. Joseph, Broad Street, St. Joseph, Michigan.

The obligation to contribute to and maintain the system for these employees was established by a resolution of the Joint Plant's board of directors and requires a contribution from the employees of 4 percent of gross wages. The Joint Plant is required to contribute at actuarially required rates; there is no current required contribution. As a result, the Joint Plant made no contributions to the pension plan for the years ended June 30, 2005 and 2004.

Note 6 - Risk Management

The Joint Plant is exposed to various risks of loss related to property loss, torts, errors and omissions, unemployment claims, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Joint Plant participates in the following risk management plans sponsored by the Michigan Municipal League to minimize its exposure to loss in these areas:

- Michigan Municipal Liability and Property Pool - property, general liability, errors and omissions and automotive coverage
- Municipal Unemployment Compensation Group Account
- Michigan Municipal Workers' Compensation Fund
- Michigan Municipal League Cluster for Employee Medical Benefits - Blue Cross/Blue Shield and vision coverage

The Joint Plant has also purchased commercial insurance coverage for dental benefits (all employees) and short-term disability benefits for unionized employees.

The Michigan Municipal League operates/administers the referenced risks management plans for local units of government in Michigan; members' premiums are used to support the risk pools, underlying coverage, to purchase commercial excess insurance coverage, and to pay claims in excess of deductible amounts.

Settled claims relating to the various risk pools or commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Supplemental Information

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Schedule of Treatment Charges - Budget and Actual Year Ended June 30, 2005

	Original and Amended Budget	Actual	Variance Favorable (Unfavorable)
Benton Harbor Billings:			
City of Benton Harbor	\$ 566,000	\$ 618,624	\$ 52,624
Benton Charter Township	973,000	1,071,227	98,227
St. Joseph Charter Township	108,000	99,350	(8,650)
Total Benton Harbor billings	1,647,000	1,789,201	142,201
St. Joseph Billings:			
City of St. Joseph	719,000	733,291	14,291
Lake Michigan Shoreline Authority	878,000	913,349	35,349
Total St. Joseph billings	1,597,000	1,646,640	49,640
Industrial surcharge	60,000	60,216	216
Total sewage treatment charges	<u><u>\$ 3,304,000</u></u>	<u><u>\$ 3,496,057</u></u>	<u><u>\$ 192,057</u></u>

Benton Harbor - St. Joseph Joint Wastewater Treatment Plant

Schedule of Operating Expenses - Budget and Actual Year Ended June 30, 2005

	Original and Amended Budget	Actual	Variance Favorable (Unfavorable)
Operation and Maintenance			
Payroll expenses	\$ 1,199,200	\$ 1,028,235	\$ 170,965
Operating supplies	92,400	60,176	32,224
Repair and maintenance supplies	28,200	17,330	10,870
Sludge handling	255,000	207,166	47,834
Transportation	10,900	9,530	1,370
Repair and maintenance contracts	96,000	72,631	23,369
Public utilities	488,500	448,145	40,355
Total operation and maintenance	<u><u>\$ 2,170,200</u></u>	<u><u>\$ 1,843,213</u></u>	<u><u>\$ 326,986</u></u>
Administrative and Other			
Professional services	\$ 56,300	\$ 35,569	\$ 20,731
Office supplies	6,500	4,994	1,506
Printing and publishing	700	58	642
Insurance and bonds	48,100	46,507	1,593
Billing charges	162,000	171,765	(9,765)
Miscellaneous	34,600	34,677	(77)
Total administrative and other	<u><u>\$ 308,200</u></u>	<u><u>\$ 293,570</u></u>	<u><u>\$ 14,630</u></u>

To the Joint Board of Commissioners
Benton Harbor – St. Joseph Joint
Wastewater Treatment Plant

In connection with the audit of the financial statements of the Benton Harbor – St. Joseph Wastewater Plant (the Plant) for the year ended June 30, 2005, we offer the following comments and recommendations.

FINANCIAL OVERVIEW

During the year ended June 30, 2005, the Plant's overall financial condition remained stable with net income of approximately \$805,000. Total assets increased approximately \$942,700. This increase is reflected mostly in the balance of investments, which increased approximately \$2,078,000. Net assets increased to approximately \$18.0 million. Of this net asset amount, \$5.5 million is Board designated for future replacement of plant and equipment, \$9.5 million represents the investment in plant and equipment, leaving \$3.0 million of undesignated net assets. Actual sewage treatment charges were approximately \$192,000 more than budgeted revenue. Total operating revenue increased by approximately \$176,000 which is an increase of 5.2 percent. This is the result of an 8.0% increase in the bulk treatment rate effective January 1, 2004. Operating expenses (excluding depreciation expense) decreased by approximately \$66,400, which is a decrease of 3.0 percent and were approximately \$341,600 less than budget. Overall this generated a favorable variance of approximately \$533,600.

CONTROLS OVER MANUAL JOURNAL ENTRIES

During our testing of manual journal entries, it was once again noted that journal entries are not reviewed by someone independent of the initiation and data entry process. The entries are currently prepared by the Plant Manager and entered into the system by a member of the IT staff. The board may wish to have an independent person with more accounting background review entries, or the Board may wish to review the entries monthly with the usual monthly board packet of information. This process would add a higher level of internal controls without requiring much additional time, since there are usually only a handful of manual entries each month.

ELECTRONIC TRANSFERS

We would like to commend the Plant on adopting an ACH Transfer Policy during fiscal 2005 to comply with the State of Michigan.

INVESTMENT POLICY TESTING

During the audit, we reviewed the investment policy requirements of the Plant and it appears that the Plant is following this policy. We did not note any exceptions during our testing of June 30, 2005 balances. We would like to compliment the Board on the excellent condition of the investment records and the positive condition of the investment portfolio. Based on our review, it appears that the portfolio is appropriately diversified, in order to comply with the policy. It also appears that all required procedures are in place and being followed by the Plant Manager as directed by the board. At June 30, 2005, the Plant held certificates of deposit that exceeded the two-year maturity window, but these certificates have been matched with forecasted capital requirements as permitted within the policy. Therefore, we did not note a deviation from the policy with this exception in maturity window.

ACCOUNTING RECORDS AND CONTROLS

We would like to compliment the Joint Board of Commissioners and Plant management for your sound and responsible financial leadership. This is evident in the overall positive condition of the Plant's financial records and related documentation for the fiscal year ended June 30, 2005. The Plant continues to maintain strong internal control procedures over cash collections, payroll and cash disbursement functions, even in a year of Plant Manager transition. In addition, the appropriate authorization channels and checks and balances necessary for a sound internal control system are in place at the Plant and operating effectively. Strong internal controls and procedures promote timely and accurate recording of financial transactions and provide pertinent information regarding the sources and uses of public funds. We encourage the Plant to continue to modify and refine existing control procedures as future financial activities change.

We would be happy to discuss these comments with you at any time. We appreciate the courtesy extended to us during the audit.

Plante & Moran, PLLC

August 10, 2005